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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

MEMORANDUM FOR: Douglas Newkirk
Assistant U.S. Trade Representative
Office of the U.S. Trade Representative

FROM: [redacted] 25X1
Director of Global Issues

SUBJECT: China and the GATT [redacted] 25X1

Attached is a copy of the study you requested on possible Chinese membership in the GATT and Chinese reactions to possible accession terms. If you or members of your staff have questions concerning the report, please call [redacted] 25X1

[redacted] 25X1

Attachment:
Possible Chinese Membership in GATT:
Accession Terms and Implications
GI M 84-10127, July 1984 [redacted] 25X1 25X1

[redacted] 25X1

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SUBJECT: Possible Chinese Membershipt in GATT: Accession Terms and Implication

OGI/ECD/T: [redacted]

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

24 July 1984

Possible Chinese Membership in GATT: Accession Terms and Implication

Summary

During the past year China has shown considerable interest in obtaining observer status in the GATT and eventually applying for membership. We believe these developments are likely. Since the GATT is not designed to regulate the trade of nonmarket economies (NMEs), GATT members have demanded special arrangements from NMEs that have joined in the past. They will probably do so with China as well. Even so China is unlikely to encounter much opposition to a membership request from GATT members. While China would only accept accession terms that conform to its trade plans, we believe that agreements to control surges in Chinese exports, to provide trade and economic data, or to sign GATT nontariff barrier codes are possible. If permitted to join GATT, China seems likely to follow the low-profile behavior that has typified its membership in most other international organizations.

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This memorandum was prepared by [redacted] the International Trade Branch, Office of Global Issues, and [redacted] China Division, Office of East Asian Analysis. The information contained herein is updated to 12 July 1984. Comments may be directed to Chief, International Trade Branch, [redacted]

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Annex 1: China: Use of Tariffs

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Possible Chinese Membership in GATT: Accession Terms and Implications

BACKGROUND

During the past year China has displayed renewed interest in observer status and eventual membership in the GATT. China initially considered GATT membership in 1981, but decided to first investigate the Multifiber Arrangement (MFA) under the GATT, which it joined in January. In February, at Chinese request, two high-ranking GATT Secretariat officials conducted a special six-day seminar on the GATT in Beijing. According to Chinese press reports, the seminar was sponsored by the Ministry of Foreign Economic Relations and Trade (MOFERT) and was attended by 60 Chinese officials. Shortly after the seminar, one of the Secretariat participants privately mentioned to US officials that the GATT Secretariat had received the impression that the Chinese had decided to pursue GATT membership.

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Since April there have been cautious Chinese soundings of officials from the Secretariat and from various delegations to the GATT about the possibility of obtaining observer status -- referred to as "participation" by the Chinese. In June, Chinese Geneva delegates

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indicated to US officials that observer status would lead to a Chinese decision on seeking GATT membership. 25X1

We believe a membership application is likely, possibly within the next year. In pursuing GATT membership, we believe Beijing is interested in contributing to an open international trading system, but only insofar as it will give China greater access to Western markets. Perhaps the primary reason for China's present interest in GATT membership is that membership would fulfill one of three conditions required by US law to make China eligible for developing country tariff preferences (GSP). 25X1

KEY MEMBERSHIP ISSUES

The chief concern raised by possible Chinese GATT membership is that GATT rules may be unable to cope with a large nonmarket economy (NME). The GATT has never had such a state as a member. Yugoslavia, Hungary and Romania are active participants, while Poland is less active. Czechoslovakia and Cuba -- charter members by virtue of commitments made by non-communist governments -- participate little. These small NME members are not major international traders, nor, because of their size, do they have the potential to be. 25X1

Many GATT members, while they would probably not oppose Chinese membership, are wary of China's often-mentioned potential to greatly expand exports. China's size supports this concern. For example, China's total exports and imports are similar to South Korea's, but

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its GNP is at least four times that of South Korea, suggesting a potential that could be diverted to export production. Concerns over China's size and how the GATT can deal with China provide a backdrop to all of the more concrete procedural and substantive issues surrounding possible membership.

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The possibility of Chinese observer status, and later membership, raises three key questions about how Chinese membership might come about:

- o Under what conditions might observer status be granted?
- o What political formula for membership -- to enter as a new member or assume the original China seat in GATT -- can all sides accept?
- o What subjects would be covered in accession negotiations?

Observer and Membership Issues

Current Chinese tactics suggest that China will seek special treatment rather than straight-forward observer status. Indeed, China has already indicated it will request to "participate in" or "attend" Council meetings instead of asking for conventional observer status. This attempt by China to establish a category for itself is probably an outgrowth of China's position, asserted for several years, that it should be allowed to claim the old "China seat" in GATT, vacated by the nationalist government in 1950. Beijing joined most UN organizations in the 1970's to wrest the "China seat" from Taiwan, but

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since Taiwan is not a GATT member, we believe Beijing's purpose in trying to assume the "China seat" in GATT is to take another opportunity to demonstrate legitimacy as the sole government of China. (Taiwan resumed its affiliation with GATT in 1965 as an observer, but was removed in 1971 when the PRC became a UN member.)

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Accession Negotiations

The nature of observer status and the political formula for membership are important legal and political questions, but the final terms of accession are probably more important to major GATT members and to the institution over the long run. Indeed, gaining membership without also negotiating trade concessions with other GATT members would be virtually impossible, since GATT is a contractual arrangement based on a network of concessions and pledges -- not like most UN organizations in which membership is exclusively a political question and is granted to most states. A number of issues are likely to be particularly important in possible unprecedented negotiations for accession to the GATT of a large, nonmarket economy such as China.

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Tariffs

Since the GATT presumes the use of tariffs to regulate trade among its members, when a country with a market economy seeks to join the GATT, accession negotiations focus on tariff concessions. However, the GATT is poorly designed to integrate nonmarket economies into the world trading system. Central planning of prices, imports, and

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foreign exchange allocation makes tariffs maintained by NMEs meaningless as regulators of international trade. This also makes tariff negotiations between market and centrally-planned economies pointless -- a tariff reduction by an NME need not lead to an import increase, denying the market economy the gain it seeks from exchanging concessions, such as in accession negotiations.

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China's policy since the late 1970's of progressively decentralizing international trade decision-making has included increased resort to tariffs, so that now tariffs affect 40 percent of Chinese trade conducted by independent economic organizations.* This transitional tariff regime greatly complicates the decision of how best to negotiate Chinese accession to the GATT, but may offer China's major trading partners possibilities for productive negotiations on tariffs. Of course, GATT members may also seek concessions other than tariffs, or might seek a combination of tariff and other concessions.

*See Annexes 1 and 2 for a fuller discussion of China's tariff system. Annex 1 was produced in 1979, but we believe its data and judgments remain valid. It is updated by Annex 2.

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On the basis of diplomatic reports of unofficial Chinese comments, we expect that in accession talks China intends to argue -- at least initially -- that its tariffs are sufficient regulators of trade for it to enter as Yugoslavia in 1966 and Hungary in 1973 did, primarily on the basis of tariff concessions. Although there is one report of

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Chinese officials candidly acknowledging to GATT officials that China's status as a state trading country must be taken into account if China seeks GATT membership, other reports of comments by Chinese officials presuppose bargaining over tariffs. In fact, the US Geneva Mission reports that it has learned from East European sources that China has been discussing with Yugoslavia and Hungary how those countries adapted to GATT rules by shifting their trading systems to greater dependence on tariffs.

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Beijing is, however, certainly aware that there are other avenues that negotiations might take. In July a Chinese Geneva delegate was very curious about what areas, in the US view, accession negotiations might cover. Although we believe that limiting accession negotiations to tariffs does not represent China's bottom line, it is unclear how readily the Chinese may retreat from this initial position.

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Import Commitments

Another subject of accession negotiations may be import commitments. When Poland and Romania joined the GATT, in 1967 and 1971, respectively, GATT members rejected negotiation of tariff concessions, the customary way of negotiating the entry of a new GATT contracting party, in favor of commitments by Poland and Romania to increase their imports from GATT members. Several import commitment formulas are possible. A commitment could be based on:

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- o A fixed annual percentage increase in imports from GATT members (the Polish formula). This formula has failed to integrate Poland into the GATT trading system. After easily surpassing its target until the mid-1970's, economic difficulties prevented Poland from continuing to satisfy the commitment.
- o A figure equal to the increase in imports projected in a country's five-year-plan (Romanian formula). This formula has worked better than the Polish formula, but this is partially because Romanian economic performance has not been as poor as that of Poland. However, the Romanian formula may not be applicable to China, since an increasing percentage of Chinese imports is being freed from central control.
- o GNP growth, industrial production, or export performance. These formulas have, of course, not been tried in accession negotiations with NMEs, but offer the advantage of being tied to economic performance. Commitments based on these indicators could be limited to imports in specific sectors.

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Although we believe the Chinese might agree to an annual percentage increase in imports from other GATT members, they would only do so if such an increase was consistent with their foreign trade

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plan. Therefore, it is unlikely that China would concede anything by accepting an import commitment. 25X1

In the case of China, a commitment to raise the percentage of imports from GATT members would serve little purpose. China's trade with GATT members is already very high -- about 94 percent of China's trade in 1983. This is far greater than that of other NMEs at the time they sought membership. In the year before joining, only about 33 percent of Poland's trade was with GATT members. The comparable figure for Romania was around 40 percent, and was 36 pecent for Hungary. 25X1

Market Disruption

The Hungarian, Polish, and Romanian accession protocols also contain market disruption mechanisms that provide import protection to other GATT members beyond that available under the escape mechanism in Article XIX of the GATT. They provide for consultations to limit exports or adjust price if imports of a product cause or threaten serious injury to domestic producers. If agreement is not reached, the matter is referred to the GATT. If GATT recommendations are not followed, the importing party is allowed to restrict imports of the product in question, and the other country is allowed to withdraw equivalent concessions. 25X1

Based on its experience with bilateral textile agreements, we believe China is likely to be wary of market disruption commitments.

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The Chinese, like many textile exporters, are so displeased with the US textile market disruption criteria announced in December 1983 that they refuse to acknowledge their validity. Consequently, if the Chinese must negotiate a market disruption commitment, they are likely to demand that explicit and detailed definitions of all methodologies, terminologies, and actions be agreed upon and written into the agreement.

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Supply of Trade-related Economic Data

As a condition of membership, GATT members might require China to provide a continuous flow of international trade and related economic information. The Chinese have been willing to provide large amounts of financial data and information to the IMF as a condition of membership in that organization. In turn, the IMF has used that information to encourage China to liberalize its foreign exchange regime.

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Such information might include, but need not be limited to:

- o The share of total trade conducted by "enterprises of independent account."
- o The amount of tariff revenue obtained from individual commodities, using SITC or BTN commodity classifications.
- o The level of direct government subsidies to individual industries.
- o The level of subsidies to enterprises engaging in foreign trade.

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[redacted] 25X1

- The level of domestic prices, costs, and wages.
- Information on domestic market opportunities. [redacted] 25X1

The above data would also be valuable to GATT members in prosecuting antidumping or countervailing duty cases against China. In the past China has only been grudgingly cooperative in such investigations. [redacted] 25X1

Trade-liberalizing Economic Adjustments

China's major trading partners might also try to seek commitments that would strengthen China's current effort to decentralize its economy, and which would also better integrate China into the international trading system. China could be encouraged or required to adjust internal prices to international levels, reduce the level of taxes and subsidies, or reduce the share of trade conducted by the Foreign Trade Corporations under MOFERT. Chinese agreement to such measures would clearly depend on how they mesh with existing trade and economic plans as well as the perceived benefits to China. Some officials in Beijing, however, may be sympathetic with such requirements, as they could be used to overcome internal opposition to economic liberalization. Nevertheless, we anticipate the Chinese would not readily accept these commitments. Indeed, at least publicly, they might object that the commitments would interfere in internal affairs. [redacted] 25X1

NTB Codes

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China could also be asked to sign at least some of the 1979 Tokyo Round nontariff barrier (NTB) codes -- particularly the technical codes, on licensing, customs procedures, or standards. Acceptance of some of these codes would move China beyond the original GATT articles and up to the level of obligations that most industrial country and some developing country members have assumed. Among NMEs, Hungary has accepted the standards and customs codes, and Hungary, Romania and Czechoslovakia have accepted the licensing code. Hungary, Romania and Poland have also accepted the antidumping code.

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Assuming the Chinese bureaucracy would be up to the task of enforcing conformity with these codes, the Chinese would probably view participation in the technical codes favorably, to the extent the codes could improve the marketability of Chinese goods overseas.

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Hong Kong

Diplomatic reports indicate that there have been discussions in the GATT Secretariat about asking China, apparently during the course of accession negotiations, to grant Hong Kong autonomy in the conduct of foreign trade and allow it to become a full GATT member. In the course of talks over the future of Hong Kong, China has publicly pledged to continue the capitalist system in Hong Kong for 50 years beyond 1997. However, if China is a GATT member and still a nonmarket economy in 1997, a free market Hong Kong would want to assume diffent GATT obligations than China.

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We believe that China wants Hong Kong to remain a free market economy. If the issue could be viewed alone, China would probably not object to guaranteeing Hong Kong's current free trade regime, from which China benefits. However, many aspects of China's policy on Hong Kong are unformulated and may remain so even after accession talks begin. We believe, therefore, that Beijing would not wish to complicate Hong Kong talks and GATT accession negotiations by involving one with the other. [redacted] 25X1

GATT MEMBER REACTIONS

We believe even token opposition to Chinese membership in GATT is unlikely. In our judgment, concern on the part of GATT members about the effects Chinese membership might have on the organization is outweighed by an interest in avoiding political conflict with China or loss of economic opportunities in China that might result from opposition to Chinese membership. US officials report that all participants at an informal June meeting of GATT delegates from the United States, the EC, Japan, Canada, Australia, New Zealand, Sweden and Switzerland were concerned that Chinese membership could lead to fundamental change in GATT, but none opposed membership. Australia, Sweden and Switzerland even indicated that they would encourage China to seek membership. [redacted] 25X1

Most developing countries can be expected to welcome Chinese membership in expectation that China will support LDC positions in the

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organization. LDCs with which China has no diplomatic relations, such as South Korea or Indonesia, are unlikely to oppose Beijing's entry into GATT to avoid appearing intent on disrupting Third World unity. South Korea clearly has a long range goal of significantly increasing trade with China, so would probably not oppose entry. India -- sometimes a rival of China in other international organizations -- would probably want China to be bound by the GATT because it has been trying to persuade Beijing to grant India MFN status.

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CHINESE BEHAVIOR IN GATT

We believe that China's generally low-profile behavior in other international organizations provides a good indication of what Chinese conduct in GATT might be. China rarely takes the initiative at the UN or in other international forums on important issues, and tends to follow the Third World consensus. As a result, the Chinese have a reputation for passivity. Chinese diplomats are also often hampered at the UN and other international gatherings because they are given little discretionary authority. They rely heavily on instructions from Beijing and are not always well informed on Chinese policy.

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China's role in the Multifiber Arrangement is typical. The Chinese representatives, who claim little familiarity with the intricacies of textile trade pacts, have, again, kept low profiles. Although we expect China to take an increasingly active role in the MFA as its delegates become more familiar with the organization, it

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will probably not take on a leadership role, leaving that to more vocal developing countries. [redacted] 25X1

THE SOVIETS AND GATT

One potential fallout of Chinese GATT membership might be to stimulate Soviet interest, if only out of a desire to match the Chinese. In approaches that were rebuffed -- most recently this April -- Soviet officials have informally indicated to US and other GATT delegations that they are interested in GATT observer status and perhaps membership in some of the NTB codes. [redacted] 25X1

Still, a Soviet attempt at full GATT membership is unlikely any time soon. Since the Soviets would enter as an industrial country, they would probably be required to offer huge concessions to bring them to the level of concessions of the other developed countries in the GATT. However, at some point, the Soviets might try to use Chinese accession as a precedent. Such a precedent would be of significantly less value to the Soviets if a Chinese accession protocol were to incorporate provisions that are incompatible with the USSR's centrally-planned economic system, and if China has achieved substantial economic decentralization at the time of accession. [redacted] 25X1

If China assumes the old "China seat," its entry would also be of less value to the Soviets as a precedent, because any Soviet accession would have to be under Article XXXIII -- as a new member -- which China would not have used. Diplomatic reports indicate that even now

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-- before China's mode of entry has been clarified -- GATT delegates from most industrialized countries believe the Chinese case is unique due to previous Chinese GATT membership, and is not a valid precedent for the Soviets. 25X1

IMPLICATIONS FOR THE GATT

While it is unlikely that Beijing's delegates will be disruptive or even outspoken in GATT, we believe the presence in the GATT of a large NME to which GATT rules can not easily be applied could harm the organization by undermining general respect for and observance of the GATT. This could, of course, be counteracted by a Chinese move toward a more market-responsive international trade system. 25X1

Rapid growth of Chinese exports could prompt frequent resort to either market disruption provisions of an accession protocol or Article XIX. This could cause dissension in the organization, but could also have the opposite effect of validating the GATT if the disputants believe the mechanisms have worked well. 25X1

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Annex 1 to GI M 84-10127

China: Use of Tariffs [redacted]

For several years following the Communist victory over the Nationalists in October 1949, China's foreign trade was conducted both by private firms and a state corporation. Customs collection, of course, fell immediately into the hands of the state, but not until 1951 was a new tariff system promulgated. In 1955 China nationalized all private trading firms, and since then foreign trade has been a state monopoly. Although the raison d'etre for tariffs would seem to have disappeared when the state monopolized trade, this system of the pre-Communist period is still on the books. There is persuasive evidence, moreover, that even today China adds a tariff charge to the cost of an import to determine the domestic user's price. [redacted]

[redacted]

China's two-tiered tariff rates, first promulgated in 1951, were revised ten years later. In a book entitled, China's Foreign Trade and Its Management, published in December 1978 at the conclusion of an UNCTAD conference in China, Chang Chao, an official of the Chinese customs administration, described the tariff system as follows:

> In the customs tariff, duty rates on imports are classified into general tariff rates and minimum tariff rates. General tariff rates are levied on imports from countries which have

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> not concluded reciprocal commercial treaties or trade agreements with China, while minimum tariff rates are levied on imports from countries which have concluded such treaties or agreements with China ... The duty to be paid for an import is according to its c.i.f. value, which means its wholesale market value at the place of purchase, plus foreign export duties and all charges incurred before discharge at the place of importation in China.

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There are several reasons why Beijing may believe it is compelled to maintain a two-tier tariff system. In the article cited above Chang stated:

> China carries out a protective tariff policy, which is an additional means to the state policy for controlling foreign trade.... It plays a positive role in protecting the domestic production, opposing imperialist trade discrimination, striving for favorable tariff reciprocity, helping improve the management of our foreign trade enterprises, and accumulating capital for the socialist construction.

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Protection of infant industries may well have been China's rationale for tariffs, at least before trade became a state monopoly. An examination of the tariff structure shows that rates are virtually prohibitive on the products of China's domestic industries--products China normally exports. (See Table 1.) (There are some exceptions to this rule, perhaps reflecting double thinking on Beijing's part. Thus, pigs, tungsten ore, and manganese ore are allowed in duty free. Beijing probably felt that China's comparative advantage was so great that these items would never be imported.)

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On the other hand, on goods China must import the tariffs are relatively low and, in some cases, non-existent. (See Table 2.) Since the real cost of producing most of these items

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domestically may well be greater than the cost of importing them, the tariffs might not have an exclusionary effect on imports at all. Moreover, the spread between the "minimum tariff" and the "ordinary tariff" is minor -- almost consistently 2.5 percent. This suggests, even more emphatically, that the Chinese are not willing to let the tariff system affect either the decision to import, or the choice of supplier.

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We do not know if the duties are in fact uniformly imposed, and, if so, on which categories of transactions. While we tend to think of a command economy as a monolithic organization, with all decisions made at the top, this can only be true with regard to decisions on imports of major importance. Many of the "nuts and bolts" decisions must be made at lower levels. One of the purposes of maintaining a tariff schedule may be to discourage local entities from using their own funds to purchase foreign rather than domestically produced goods, without actually banning such purchases. (

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in the past exporting firms were permitted to retain 5 percent of their foreign currency earnings for their own import needs. In 1978, in order to provide increased incentives to export, this share was raised to 15 percent.)

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It seems reasonable to assume that Chinese authorities exercise considerable flexibility in administering the tariffs. Capital good imports, especially significant purchases with centrally allocated foreign exchange funding, may be exempted altogether from duties. Rule One of the Customs Regulations appears to give the State Council the authority to waive

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tariffs. For imports purchased pursuant to a state plan, assessment of a duty on a large state-controlled production unit strikes us as essentially a bookkeeping transaction, but one which could complicate the planning process. Since the bulk of PRC goods are urgently needed in high priority sectors of the economy, the imposition of a tariff "tax" would tend to impair the efficiency of carrying out the plan.

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In a market economy, a differentiated tariff system has an important influence on the direction of trade, and whole categories of imported goods from non-MFN countries can be excluded if the duties are set high enough. Beijing may believe that the two column system provides a modicum of encouragement for other countries to enter into trade agreements with PRC, and of course, provides an ostensible bargaining chip in a trade negotiating situation. However, we note that political factors seem to operate to a greater or lesser degree in most PRC foreign trade transaction decisions, and these political considerations are subject to frequent modification and redefinition. A tariff mechanism would seem to be a rather clumsy tool to reconcile with desired political ends, especially when more direct means are available. Rigid application of a two-column system would have a number of disadvantages; e.g., it might inhibit trade with certain LDCs which did not have a bilateral trade agreement with the PRC, but with which Beijing wanted to encourage trade for political reasons.

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We do not believe that PRC tariffs, even if they are applied at a discriminatory rate to goods from the US, have had a

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significant exclusionary effect on US sales to China. Conversely, we do not believe that conferral of the lower "minimum tariff" status would in itself lead to significant trade expansion. The record shows no perceptible improvement in the competitive posture of countries to which China has granted "MFN satus." (See Table 3.) Rather, China's import priorities together with the price competitiveness of foreign firms would appear to be the major factors in Beijing's choice of suppliers.

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Table 1

China: Representative Sample of Import Tariffs on Goods Normally Exported

Chinese Tariff Number	Minimum Nomenclature	Ordinary Tariff	Tariff
010	Soybeans	50%	70%
016	Madarin Oranges	80	100
036	Mushrooms	120	180
049	Eggs, fresh	80	120
059	Peanut Oil	80	120
087	Tea	100	150
121a	Shrimp	80	120
202	Lacquer, crude	80	120
263	Bambooware	80	120
273	Pigs	Free	Free
296	Bristles	80	120
299	Feathers and Down	80	120
348	Tungsten Ore	Free	Free
349	Manganese Ore	Free	Free
383	Window Glass	100	150
391	Chinaware	100	150
406	Linseed Oil	60	80
420	Camphor Oil	80	120
544	Cotton Yarn, Gray	40	60
549	Cotton Sheeting, Gray	60	80
581	Clothing, Cotton	80	120
621	Raw Silk	100	150
750	Antimony, crude	50	70
906b	Pencils	60	80

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Table 2

China: Representative Sample of Tariffs on Goods Normally Imported

Chinese Tariff Number	Minimum Nomenclature	Ordinary Tariff	Tariff
001	Wheat	17 1/2%	20%
212	Rubber, Crude, Crepe	12 1/4	15
347	Iron Ore	Free	Free
506	Ammonium Sulfate	7 1/2	10
508	Fertilizer	5	7 1/2
509	DDT	5	7 1/2
640	Chemical Wood Pulp	12 1/2	15
677a	Platinum Ingots	Free	Free
684a	Boiler Plants, Iron	7 1/2	10
698	Galvanized Iron Pipes	15	17 1/2
705b	Steel Angles and Shapes	10	12 1/2
706a	Spring Steel Wire	12 1/2	15
708	Copper Ingots and Slabs	5	7 1/2
729	Aluminum Ingots and Slabs	10	12 1/2
752	Nickel	7 1/2	10
781	Steam Boilers	7 1/2	10
786	Agricultural Machinery	7 1/2	12 1/2
794	Oil Well Drilling Machines	7 1/2	10
810	Dredgers	7 1/2	10
821	Lathes	10	12
856b	Nautical and Aeronautical Instruments	Free	Free
866a	Microscopes	5	7 1/2
880	Aircraft	5	7 1/2
882	Ships	Free	Free
889	Locomotives	5	7 1/2

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Table 3

China: Import Shares of Selected Trading Partners Granted "Minimum Tariffs"*

(Percent)

Country and Date "Minimum Tariff" Granted	Years Prior to Granting			Years Following Granting		
	3rd	2nd	1st	1st	2nd	3rd
Japan 5 Jan 1974	45	41	34	42	45	44
West Germany 5 Jul 1973	12	11	11	9	11	16
Canada 13 Oct 1973	10	16	17	9	7	5
United States 1 Feb 1980	4	12	17	28	28	27

* Calculated as a share of China's Imports from all OECD countries. If calculated as a share of China's imports from all non-Communist countries, the percentages are only slightly smaller, but the trends are almost identical.

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Annex 2 to GI M 84-10127

Update to "China: Use of Tariffs"

Two developments since 1979, the date of Annex 1, should be commented on.

First, tariffs probably are more widely applied now than in 1979. In 1979, virtually all foreign trade decisions were made by Foreign Trade Corporations (FTCs) under the then-Ministry of Foreign Trade. As a result of the progressive decentralization of trade since then, FTCs now are responsible for only about 40 percent of all trade transactions, 20 percent are made by other ministries under the State Council (such as the Ministries of Petroleum, Coal, and Machine Building Industries), and the remaining 40 percent by enterprises of independent account. Because the last are largely responsible for their own profits and losses, we believe that tariffs on their trade have a real bearing on costs, and would affect purchasing and sales decisions.

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Second, under China's present leadership, greater consideration is being given to the use of "economic levers" -- rather than direct

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administrative fiat -- as a means of implementing economic policy. By "economic levers" the Chinese mean monetary and fiscal policy tools such as those employed by market economies, including the use of tariffs. Pending a major realignment of prices, the Chinese have begun to experiment with tariffs as an interim measure for shielding domestic prices from international competition. For example, they recently imposed tariffs on about 30 export commodities -- in order to prevent local producers from exporting goods, such as many staple agricultural commodities, coal and oil, that are underpriced domestically. With the loosening of direct controls on trade, China's fascination with tariffs has increased. In the future it will become more and more difficult to wean China away from their use.

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